

AGRICULTURAL MARKETING SERVICE

Statement of Lloyd C. Day, Administrator
Before the
House Subcommittee on Agriculture, Rural Development, Food and Drug Administration,
and Related Agencies

Mr. Chairman and Members of the Committee, I am pleased to have this opportunity to represent the Agricultural Marketing Service (AMS) in presenting our FY 2007 budget proposal. Although I have worked with AMS only since early August, I understand the importance of efficient and effective marketing systems for U.S. agricultural producers and consumers. My previous Government experience was focused on international trade issues at the Foreign Agricultural Service and the California Trade and Commerce Agency; in private industry, I have managed business development and marketing activities.

To provide a starting point for discussion of our budget proposals, I would like to begin by reviewing our agency's mission in the context of USDA's strategic objectives. I will also discuss a few of the programs through which we carry out that mission, and mention a few recent accomplishments and issues of interest to AMS clientele.

MISSION

AMS is a key component in USDA's strategic objective to increase the efficiency of domestic agricultural production and marketing systems. This objective recognizes that the long-term viability of agricultural producers depends on their ability to manage an efficient and profitable operation. Once produced, agricultural goods need efficient and equitable market outlets. AMS plays an integral role in the U.S. marketing system by ensuring that

buyers and sellers in the food production and distribution chain have equal access to market information and technical services. Although our focus is generally on domestic marketing, some of our programs also support USDA's efforts to assist U.S. agricultural producers in international marketing.

The mission of AMS is to facilitate the marketing of agricultural products in the domestic and international marketplace, ensure fair trading practices, and promote a competitive and efficient marketplace to the benefit of producers, traders, and consumers of U.S. food and fiber products. We accomplish our mission through a wide variety of appropriated activities and through our user-funded grading, certification, and Perishable Agricultural Commodities Act programs. Although our user-funded and reimbursed programs are important to agricultural marketing, most of my discussion today will focus on our appropriated programs.

AMS PROGRAMS

AMS programs work together, in cooperation and coordination with other Federal agencies within USDA and outside the Department, and with State partners to provide services that support our mission. Our "clients" span the marketing chain from the producer to the consumer. For example, we collect and disseminate current market information on agricultural prices, quality, supply, demand, and other data useful for production, sales, and purchase decisions. We also publish current rates and availability information on agricultural product transportation modes. We provide technical advice and support on market facilities, methods, and technology, plus matching grants for regional projects that support agricultural marketing. We offer independent, official verification services to provide assurance for sellers and buyers that commodities meet contract specifications, quality and marketing claims, labeling, and Federal requirements, and to ensure fair trading of agricultural

production in the United States. Consumers benefit directly from organic labeling, graded foods, farmers markets, and pesticide residue information. Our programs assist commodity producer groups by providing technical and regulatory support for federally-authorized self-help programs, and we purchase food commodities that are in short-term oversupply for use in USDA nutrition assistance programs.

MARKETING SERVICES

Our Marketing Services programs provide services that benefit all agricultural producers, traders, and consumers of dairy products, fruits, vegetables, specialty crops, livestock and meat, poultry, cotton, and tobacco. These programs facilitate marketing by providing information, technical expertise, and buyer assurance. They are funded through annual appropriations and include our Market News, Standardization, Shell Egg Surveillance, Federal Seed, National Organic, Pesticide Recordkeeping, Country of Origin Labeling, Pesticide Data, Transportation Services, and Wholesale, Farmers, and Alternative Market Development programs.

MARKET NEWS

AMS' Market News service reports market data on farm products in more than 1,300 production areas and many domestic and international markets. Market News reports for over 700 commodities are disseminated within hours of collection via the Internet and other electronic means and through the news media. In October 2005, we made available a new Market News Web Portal to the public, making Fruit and Vegetable and Livestock and Grain reports immediately available for users, with other AMS commodities to be added in coming months. The portal allows the agricultural industry and other interested users to customize the data they receive, build their own reports, and query the database back to 1998. We have

already received an enthusiastic response to the expanded availability of data through the portal.

Market news data is provided by buyers and sellers for most commodities on a voluntary basis. However, Congress established Livestock Mandatory Price Reporting (LMPR) in 2000 to ensure that information on meat and livestock trades would continue to be available for producers in a consolidating industry, including formula and contract market information. LMPR generates more than 100 daily, weekly, or monthly reports on fed cattle, swine, lamb, beef, and lamb meat market transactions. Legislative authority for LMPR lapsed on September 30, 2005, following a one-year extension. As both Houses of Congress were considering bills to continue the program, AMS sent letters to all packers previously required to report, requesting voluntary cooperation in continuing to submit information required under the mandatory program. Consequently, most of the reports continue to be published--only the imported boxed lamb cuts and slaughter cow reports have been discontinued.

The Government Accountability Office recently reviewed the program and recommended some improvements. To improve reporting transparency, AMS will inform Market News readers about the general guidelines followed by AMS reporters in making reporting decisions through periodic public reports on the volume of submitted transactions that are excluded by reporters and the effect that such exclusions had on net price distributions on all reported commodities. We also have established a toll-free telephone information line for questions about reporting which gives producers an opportunity to obtain information on how the data for the livestock they sold is used in reporting.

To help verify the overall accuracy of the transaction data supplied by packers and to identify recurring significant problems, AMS will implement additional or modified auditing

methods to increase the overall effectiveness of compliance activities. The program is reviewing sample selection, the need for more audits at plants that demonstrate a higher frequency of non-compliances, and additional analyses to identify any widespread reporting problems. To ensure timely and consistent follow-up to audit findings, AMS has developed new procedures that greatly improve the audit process, including timeframes for corrective action and a hierarchy for categorizing the severity of non-compliances. AMS also has modified its audit process to more closely review transactions reported at the low-price end of the market. All of these improvements will be completed by the end of this fiscal year.

Livestock and meat information is used as a basis for developing contracts between producers and packers, as well as packers and retailers. We believe that the program has resulted in the availability of comprehensive information that has improved the transparency of the marketplace. Therefore, we request continued funding and support reauthorization of Livestock Mandatory Price Reporting.

COUNTRY OF ORIGIN LABELING

This year, we are implementing a Country of Origin Labeling (COOL) surveillance and enforcement program for fish and shellfish. Labeling requirements for these products became mandatory on April 4, 2005, and we have used the intervening months to educate the industry—suppliers and retailers—on the documentation and records required to substantiate country of origin and method of production claims. Mandatory labeling requirements for all other covered commodities were delayed until September 30, 2008. The delay will allow us to develop an operational infrastructure before mandatory labeling for all other commodities covered by the Act—beef, lamb, pork, perishable agricultural products, and peanuts—becomes effective.

TRANSPORTATION

Our Transportation Services program facilitates the movement of U.S. agricultural products to market. As part of that effort, the program produces periodic publications that provide information for agricultural producers and shippers on various modes of transportation, including grain transportation, refrigerated transport, ocean rates and transportation trends, and agricultural containers. In 2005, the program greatly expanded its reporting to keep the Secretary and Administration officials well-apprised of the impacts of Hurricanes Katrina and Rita on agricultural transportation; issuing 22 daily and 5 weekly briefing reports from August 29, 2005 to October 26, 2005. In early November, the program switched to issuing a Weekly Transportation Update, which continued to provide information on the recovery status of the transportation systems. During the aftermath of the hurricanes AMS participated with the Army Corps of Engineers in briefing staff from both houses of Congress and supported Departmental testimony on the recovery.

MARKET DEVELOPMENT

Our Wholesale, Farmers, and Alternative Market Development program experts, in cooperation with local and city agencies, assist local efforts to develop or improve wholesale and farmers market facilities, and to discover other direct marketing opportunities. This program also supports research projects on marketing channels and market technology improvements, as well as numerous marketing conferences and workshops across the country. For 2006, AMS was appropriated funding to implement the Farmers Market Promotion program. The program will make grants of up to \$75,000 to eligible entities to establish, expand, and promote farmers' markets and other direct-to-consumer marketing channels. These eligible entities include agricultural cooperatives, local governments,

regional farmers' market authorities, and nonprofit, public benefit, and economic development corporations.

SECTION 32

AMS also receives appropriated funding for activities authorized under Section 32 of the Act of August 24, 1935. AMS' Commodity Purchase program buys perishable non-price supported agricultural commodities—meat, poultry, fruits, vegetables, and fish to encourage domestic consumption. Commodity purchases support the market for these agricultural commodities by reducing supplies in temporary surplus, by providing foods used by domestic nutrition assistance programs, and by purchasing commodities for use in disaster relief efforts. The purchased foods are donated to the National School Lunch Program and other domestic nutrition programs. In FY 2005, AMS purchased 1.46 billion pounds of commodities that were distributed by the Food and Nutrition Service through its nutrition assistance programs. As directed by the Secretary, this program may also make emergency diversion and relief payments to producers in temporary distress. In addition to commodity purchasing activities, Section 32 funds the Federal administration of Marketing Agreements and Orders, which help producers in the marketing of their milk, fruit, vegetables, and specialty crops.

PARTNERSHIPS

Discussion of AMS' programs is not complete without a brief mention of the extensive partnerships with other Federal agencies, State agencies, and industry that characterize our program delivery.

The Agricultural Marketing Act of 1946, the authority on which we rely for a great number of our programs, encourages Federal-State cooperation in carrying out market facilitating activities. AMS depends on strong partnerships with cooperating State and

Federal agencies to operate many of our programs. AMS provides guidance and coordination to State agency partners who collect data, provide inspection, monitoring, and laboratory services, and otherwise maximize the value of both State and Federal resources through sharing and coordination. For instance, AMS' Market News program maintains cooperative agreements with 38 States to coordinate their local market coverage with the regional and national coverage needed for AMS' market reporting. State employees, who inspect shipments of seed within a State, provide information to AMS' Federal Seed program on potential violations in interstate shipments. Our transportation and direct marketing programs work with Federal, State, city and local policy makers to maintain an efficient national transportation system and expand and improve market outlets for U.S. agricultural products. Under Section 32, USDA's food purchase programs have developed partnerships that maximize the unique expertise that each agency brings to the process. AMS works in close cooperation with the Food and Nutrition Service (FNS) and the Farm Service Agency (FSA) to support USDA's nutrition assistance and administer surplus commodity programs.

FISCAL YEAR 2007 BUDGET REQUEST

This leads us into our budget requests for FY 2007. In Marketing Services, we propose to strengthen the operations of the National Organic and Federal Seed Act programs, implement a new Food Protection program for purchased commodities, and continue work on the Web-based Commodity Supply Chain Management System. The budget also includes a proposal to terminate the Microbiological Data program and institute new user fees for the development of grade standards and the Federal administration of Marketing Agreements and Orders.

NATIONAL ORGANIC PROGRAM

The U.S. organic food industry has grown approximately 20 percent a year to an \$18 billion annual sales level and provides an important marketing opportunity for many producers. We are requesting additional funding of \$1.1 million for FY 2007 so that we can more effectively manage the statutory and operational requirements of the National Organic Program (NOP) to ensure that it meets producers' needs and consumers' expectations.

The National Organic program (NOP) provides assurance for consumers that organic products uniformly meet established requirements nationwide. Program personnel work in partnership with the National Organic Standards Board, which is appointed by the Secretary to represent industry and consumer interests. In January, six new members were appointed to the Board. Based on earlier Board recommendations, AMS has hired an Executive Director and developed a plan to establish a peer review panel. The panel will assist in evaluating applications of certifying agents seeking accreditation and ensure that the accreditation process is consistent with the intent of the law.

The budget request will provide the funds needed for independent peer audits that evaluate all aspects of the NOP accreditation program and for program staffing to implement the results of those audits and otherwise assist in the delivery of this program. The audits, which will be conducted every two years, are necessary to maintain the program's credibility with the organic industry and for continuous improvement of the program's management systems.

The program also needs additional resources to avoid interruption of organic production. As provided in statute, the approvals for some 174 materials originally placed on the National List of approved and prohibited substances for organic production will sunset in October 2007. AMS program staff works with the National Organic Standards Board to

update and maintain the National List and each of the expiring materials must be re-evaluated. To ensure that the Board and all interested parties have sufficient time to evaluate such a large number of materials, AMS published an Advance Notice of Proposed Rulemaking in June 2005 that began the public comment process on whether the specific exemptions or prohibitions should be continued. Due to heightened interest, technological obsolescence, or available alternatives, we expect that almost one-third of those materials will have to undergo independent scientific reviews before their use can be reauthorized. Our FY 2007 budget request includes funding for the program to work with the Board to complete the re-evaluation of the National List.

The requested funding also will provide the resources needed to resolve other issues facing the program: 1) strengthening compliance and enforcement activities to maintain trade and consumer confidence; 2) developing organic standards for additional products, which will require extensive public input; and 3) dealing with current issues such as recent amendments to the Organic Foods Production Act and questions on access to pasture for organically produced ruminants. Although Congressional action amending the Organic Foods Production Act of 1990 (OFPA) restored the program to its status before the decision by the U.S. District Court for the District of Maine in the case of *Harvey v. Johanns*, certain procedural issues remain to be resolved. The court found, on June 9, 2005, that USDA had in two instances exceeded its statutory authority in developing program regulations. To reduce the impact of the court's ruling on the organic industry, Congress amended the OFPA on November 10, 2005, to permit the use of synthetic ingredients and the transitioning of dairy farms.

FEDERAL SEED ACT PROGRAM

Our FY 2007 budget request includes an increase of \$432 thousand for our Federal Seed Act program. The Federal Seed Act protects anyone who purchases seed by prohibiting false labeling and advertising on seed shipped interstate. The program prevents financial losses to farmers by detecting mislabeled, low quality seed before it is planted and creates a level playing field for seed companies that market truthfully labeled seed. In States where seed monitoring programs exist, AMS works with State partners who refer interstate violations to us. However, in States that do not have their own monitoring programs, we estimate that the percentage of mislabeled seed doubles. To better enforce the Act to protect growers, we propose to assume seed testing in eight States – Maine, Vermont, New Hampshire, Connecticut, Rhode Island, New York, Michigan, and Wisconsin - that receive most of their seed from other States but do not have their own monitoring programs.

FOOD PROTECTION PROGRAM

For FY 2007, we are requesting a \$2.75 million increase in Marketing Services to establish a new Food Protection program that will better protect the recipients of commodities that are purchased by USDA and distributed through the National School Lunch Program (NSLP) and other Federal nutrition assistance programs.

The Food Safety and Inspection Service (FSIS) and the Food and Drug Administration (FDA) are doing significant work with the food industry to promote food defense. AMS is pleased to be participating in several FSIS and FDA initiatives. Additional funding is necessary to ensure that all possible actions are taken in assessing and eliminating vulnerabilities in the production and distribution of foods for NSLP and other Federal nutrition assistance programs that serve vulnerable population segments. The resources we are requesting will enable us to work effectively with our vendors in their protection of their

production facilities and with distributors in the transport of food products to State warehouses. AMS will ensure that our vendors are aware of FSIS' and FDA's food defense guidance and that they are early and effective adopters of that guidance.

In full partnership with FSIS and FDA, AMS will work with the vendor community to conduct vulnerability assessments, develop guidance on protecting products purchased for distribution through Federal programs, fund studies on improving security through safer packaging and transportation, and incorporate food protection attributes into our purchase specifications. AMS has begun developing specialized training materials to ensure that agency staff involved in contract acceptance are properly trained and supervised. With additional resources, we plan to offer food protection training for about 6,000 employees of State partner agencies, along with workshops and training sessions for vendor employees. With the funds being requested we can protect Federal commodity purchases and help advance the food defense efforts of FSIS and FDA by ensuring that AMS' vendors are implementing effective food defense plans in their facilities.

FEDERAL-STATE MARKETING IMPROVEMENT PROGRAM

The Federal-State Marketing Improvement Program (FSMIP) helps to resolve local and regional agricultural marketing problems by awarding Federal matching grant funds for projects proposed by State agencies. Our FY 2007 budget request includes \$1.3 million for FSMIP. These matching grant funds are made available to State departments of agriculture and other State agencies for 25 to 35 projects each year, with the State agencies contributing at least half of the project cost. In 2005, the program allocated grant funds to 21 States and Puerto Rico for a total of 27 projects, including studies on linking producers with new buyer groups and innovative uses for locally important agricultural products. The program encourages projects that use a collaborative approach between the States, academia, and the

farm sector, that have regional or national significance, and that address challenges or opportunities posed by the global economy, changing consumer preferences, agricultural diversity, technical innovation, transportation, and distribution.

WEB-BASED SUPPLY CHAIN MANAGEMENT SYSTEM (WBSCM)

For FY 2007, we are proposing to continue development of the Web-based Supply Chain Management System at a reduced level of \$9.9 million, and we are requesting funding from Marketing Services so that this project is funded from discretionary resources. As \$20 million was provided from Section 32 in FY 2006, our budget request for Commodity Purchases Administrative funds in FY 2007 has been reduced by that amount.

The WBSCM system will support \$2.5 billion worth of USDA food purchases distributed through the National School Lunch Program and other domestic and international food assistance programs. WBSCM will replace USDA's existing Processed Commodity Inventory Management System (PCIMS) that links the procurement and distribution functions of AMS, FNS, and FSA. PCIMS is over 15 years old and is inflexible, resource intensive, and costly to maintain. AMS initiated and coordinated the budget request for this initiative on behalf of all three agencies.

The implementation of WBSCM will save USDA's nutrition programs several million dollars annually, in operational and maintenance costs, increased productivity, and reduced purchase and shipping costs. WBSCM will create a single point of access for customers, allowing the agencies to share information with customers more quickly and conveniently. The new system will improve efficiency by greatly reducing the time required for processing purchases; shortening delivery times; improving USDA's ability to collaborate with other Departments; improving reporting capabilities; reducing transportation, inventory, and warehousing costs; and enabling future systems updates as needed. Successful

completion of this initiative will support clean financial audits for the Department, the agencies' ability to effectively and efficiently work with recipients and vendors, and USDA's ability to respond to natural disasters.

MICROBIOLOGICAL DATA PROGRAM TERMINATION

The FY 2007 budget does not request funding to continue the Microbiological Data Program (MDP) which was established in 2001 to establish a national database on foodborne pathogens on domestic and imported produce. It is difficult to determine to what extent the data obtained through this program are used to support risk assessments by other Federal agencies such as the Food and Drug Administration. Furthermore, the use of these data by agencies, such as the Centers for Disease Control and Prevention, involved in epidemiological investigations aimed at determining the source of outbreaks of foodborne illness is limited because data on sample origin is not collected, as directed by Congress. In response to these concerns and the need to limit Federal spending, the program is proposed for termination in 2007.

NEW USER FEES

Our Marketing Services request for FY 2007 includes \$2.2 million to be recovered through new user fees, based on a proposed legislative change that would convert most of our domestic standards activities to user-fee funding. USDA will submit legislation that will amend the Agricultural Marketing Act of 1946 and authorize the agency to implement, collect, and retain user fees for domestic standards that are associated with AMS' grading and certification services. Also, \$12.3 million is proposed to be recovered for the Federal administration of Marketing Agreements and Orders through increased assessments on program beneficiaries, which is currently funded through Section 32.

STANDARDS USER FEES

This budget again proposes to recover the costs for developing and updating domestic standards through user fees paid by those requesting AMS' grading and certification services. This proposal was recommended by the Program Assessment Rating Tool (PART) review conducted for the FY 2006 budget. On average, we expect the cost for Standards development will be about two percent of the cost of grading services. The Department has proposed a legislative amendment authorizing standards user fees.

AMS' Standardization program works closely with interested parties in agriculture and the food marketing system to ensure that quality descriptions are aligned with current U.S. marketing practices because efficient markets need widely-recognized agricultural product descriptions in commercial sales and purchases. The agriculture industry uses these descriptions to convey commodity quality in purchase specifications and sales contracts. AMS currently maintains about 600 U.S. agricultural quality standards for domestic and international trading of cotton, tobacco, dairy products, fruits and vegetables, livestock, meat, poultry, eggs, and rabbits.

The Standardization program also supports exports of U.S. agricultural products by representing the interests of U.S. producers in a variety of international standards development organizations. We are proposing to retain appropriations to fund these activities.

MARKETING AGREEMENTS AND ORDERS USER FEES

Marketing Agreements and Orders are requested by producers and handlers to help establish orderly marketing conditions for milk, fruits, vegetables, and tree nuts. AMS evaluates and conducts hearings on proposed Marketing Orders, which are subject to approval by producers of the regulated community. Section 32 funds have been appropriated

for Federal costs in administering the order at the national level, including public hearings, referenda on new programs and proposed revisions, and enforcement. The Milk Marketing Order Administrators and Fruit and Vegetable Marketing Order Committees, who oversee local administration of Marketing Orders, operate on assessments paid by their industries. Our FY 2007 budget proposes to charge user fees to recover the cost of Federal oversight. The assessments already charged to beneficiaries for local program administration would be increased to cover Federal costs. USDA is preparing a legislative amendment to authorize recovery of these costs.

BUDGET REQUEST SUMMARY

Our budget request includes \$81.5 million in appropriated funds and \$2.2 million in new user fees for a total budget of \$83.7 million in Marketing Services; we also request \$1.3 million for FSMIP grants funding. For administration of Section 32 activities, we request \$11.6 million to support commodity purchasing and a total of \$16.4 million for the Marketing Agreements and Orders program -- \$4.1 million in appropriations and \$12.3 million from user fees. Our Marketing Services and Section 32 administrative funding requests include an increase for pay costs.

Thank you for this opportunity to present our budget proposal.